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Connecting Financial Literacy to Financial Planning

We often meet prospective clients facing consequences of wrong financial decisions. The case may be of investment in a ponzi scheme or a credit card debt trap. The most common one is to take a life insurance policy with prime objective of tax saving and not for life coverage. All such situations refer to absence of financial literacy. Most of the times our target customers aren't complete financially literate (though they are very good in their profession). Consequently they undervalue the need of financial planning and continue to take financial decisions randomly. Low level of financial literacy in our country makes it more challenging for planners to deal with clients, especially in small cities. But it is also an opportunity to turn up. So we need to work on it for our profession.



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Taking financial decisions randomly by people

My starting experience was with a doctor who was paying a big sum as life insurance premium (ULIP) and even then he wasn't adequately insured. When I described him the reality, he was surprised but yet very uncomfortable to switch to a better policy just because he may incur some losses. Another client had invested a heavy amount in a structured product called- Nifty Linked debentures. Though he was told that the product was tradable in secondary market, practically there was no liquidity in secondary market. And therefore at the time of need, he was in liquidity crunch. In fact today financial markets have become gradually complex. Although different channels of media have made communication faster, there is information asymmetry between markets and the common person. And without proper understanding, investors find it increasingly difficult to make informed choices and can be a victim of mis-selling easily.

Recently we got a call from a working couple whom we had followed up one year ago. At that time, they didn't find out any benefit of financial planning and we left off. This time they were seeking a health insurance policy because their 6 year daughter needed to be operated due to some health issues. We replied them that immediate treatments aren't covered under health insurance. Though they were unhappy to know it but they realized how inflation and rising healthcare costs are affecting their finances and what they have missed.

Two years back, I met my school friend after a long time and came to know that his husband is working in a bank. So they were confident about their financial awareness. But I didn't find their decisions satisfactory. They were having 10 SIPs of Rs. 2000/- each in 10 different schemes. Value of some of those schemes appreciated significantly and they booked profit. But they didn't review non performing schemes and waited that these schemes might make money someday. Another big issue is that youths tend to ignore the importance of money management. They generally don't keep track of where they spend and how much they spend. I met several youngsters who are earning a lot but aren't serious while taking financial decisions. The distinction between needs and wants has become hazy for them. Our new neighbor, Mr. Dutta had a Maruti 800 and was planning to purchase a flat. But meanwhile he got tempted and bought a new car. After sometime when he booked a flat in his desired location, he was in substantial debt. The easy availability of credit has swayed people to spend significantly beyond their means. Once a person is in the hole of debt, it is extremely challenging to climb out of it.

Financial Literacy and its implications

We seldom find anyone who has gone for a financial product after due consideration of his personal financial situation. Products are selected without understanding its characteristics and without ensuring its suitability in the portfolio. Over-exposure to debt (as an asset class) in a portfolio or getting panic with volatility of equities is very common. There was a trend to invest in gold in recent past which ended with a lot of questions (asked by investors to their advisors) on its prospects.

My experience says that in such circumstances when I meet a prospect, he starts with a hesitant behavior. He doubts what I am. As he is not very clear what financial planning is, he compares me from an advisor or agent who has made him to take some unreasonable financial product last time. And when he finds some worth in me, he tries to get some investment related advice. It takes too much time to make him understand the worth of financial planning and consequently the conversion ratio is not good.

Facing these issues, we felt the need to analyze financial habits of our prospective clients. After analysis, we found that most of the times they don't know what they are doing and how they are harming themselves. They need to develop the ability to analyze and manage the personal financial situations so that they can plan for future, minimize financial risks, use credit responsibly and can ultimately enjoy improved standard of living. In few words they should be financially aware to make informed and effective financial decisions.

Financial literacy is simply the ability to understand issues related to personal finance and manage them judiciously. But absence of financial literacy can damage substantially the interests of the persons concerned. Most of the times, it harms the concerned person indirectly. The damage isn't visible because the affected person is

unable to visualize it. He doesn't come to know what he is losing and so he can't measure the damage. This is how the real problem starts that people don't realize their unawareness and further they aren't willing to accept it. It makes people averse to change their financial habits.

Finding course of action

We also found that clients, who are not much financially aware, have irrational and illogical demands. These all experiences make us to work on improvement of financial literacy. And then we knocked around finding innovative ways to do it so that people can also understand the need of financial planning.

We started from our office and shared everyone's views on financial literacy. We decided to convey the importance of financial literacy to whomever we meet. Then we moved towards our existing clients as it was easy to get support from them. They were comfortable to share their views on our strategies and we were in a position to watch the outcome.

We discussed about our financial literacy program with our clients and talked to them to have a session on topic- "how financial illiteracy harms people", at their venue for the benefit of their colleagues, juniors and neighbors. The majority of clients welcomed it and organizing such events has been helpful for us. We talk to the concerned client after a few days of every event to get the feedback of audience. In this way we were able to improve our presentation. In fact some of the clients were very happy as they become popular after our interactive and knowledge-oriented sessions.

After a few sessions, we felt the need to convey that financial awareness turns into monetary benefits. Only then it was possible that most of the people take it seriously. So we cited a short story on how financial literacy can help one to manage his finances in a better way and results in monetary growth. We mention this story while communicating with people for a better understanding. We also prepared a booklet with interesting but motivating stories to distribute after seminars.

We consult offices, educational institutions and communities and discuss with the authorized person about benefits of personal finance education for their employees and members. After their approval, we organize financial literacy seminars and workshops at their place. It takes a little shift in focus to turn these events into business-building activities. For schools and colleges, we use financial quiz to make the subject fascinating for students. Recently we did a campaign only for women and got good response.

Sending newsletter has been an effective method for us to be connected to potential clients. It tells them what we are doing and how it helps. It also keeps them update on financial and economic issues. They come to know the complexities of today's fast changing world and the role of financial planning in the dynamic financial sector.

One of the concerns is that the potential clients find it difficult to trust their advisors. Increasing financial literacy helps in two ways. First, financial awareness enables them to select right financial advisor. And second, organizing financial literacy programs make potential clients to see the advisor as having ability to be a trusted financial advisor. Writing in journals and other such media has also been helpful for us. Such writings also give opportunity to be called as speaker in local events which helps in building trust and coming in front of potential new clients.

We have found that though people gather information from television, newspaper, magazines etc, they are unable to use it while taking financial decisions. There happens to be a knowledge gap between knowing and implementing. It happens because financial decisions need to have a holistic approach. Use of information available in mass media needs to be assessed from the viewpoint of a particular individual's financial situation. So we started free consultancy services for referrals. There have been a good number of referrals till now and a good conversion ratio also. Now we have many happy clients who first understood importance of financial literacy and then accepted financial planning as an indispensable activity.

Conclusion

Our potential clients need to know that if financial education looks them expensive, ignorance is more costly. It is very clear that most people generally consider financial well-being as a consequence of high income or the accumulated assets and so they often fail to plan for their finances. Though this unawareness about financial planning makes us worried in beginning, we took this challenge and found way in improving financial literacy. An educated client is a better customer. Considering financial literacy as foundation of financial planning, we moved on and you can also do it at your level. A modest focus on financial education will surely be good for our profession and also for our clients and citizens.